BLS Capital

Global Equity: MSCI ACWI Benchmark

For the month of: August 2020

Manager Performance Calculations

** Annualized returns*

	Last Month	Last 3 Months	Last 1 Year	Last 3 Years*	Last 5 Years*
BLS	9.59%	15.32%	16.01%	14.93%	n.a.
MSCI ACWI	6.12%	15.30%	16.52%	8.99%	n.a.

Performance Attribution & Strategy Comments

The portfolio had a gross return of 9.59 pct. in August, whereas MSCI AC World returned 6.12 pct. resulting in an outperformance of 3.47 pct. The three largest relative contributors were Intercontinental Hotels Group (27.3 pct. in USD), Mastercard (16.1 pct.) and Anheuser-Busch Inbev (7.0 pct.), while Otis Worldwide (0.6 pct.), Automatic Data Processing (4.7 pct.) and Diageo (-7.5 pct.) were the largest relative detractors.

Our portfolio is sensitive to Covid-19 being kept under control due to our overweight in consumer companies, in particular high-end consumption, yet we expect that our high-end consumer companies will emerge strengthened on the other side of the crisis. In Europe where countries have re-opened consumer spend has experienced a strong re-bound with continued strong, even accelerated, online growth. Adidas reported figures that were strong considering the tough market conditions, and showed strong inventory management and cash generation, along with commentary on strong recovery in profits for the second half of 2020. The improving trend in our consumer holdings have been re-iterated across the reporting by our companies for the second quarter of 2020. Reports from our companies highlight the regional differences with current consumer trends with e.g. Europe and China improving, where the luxury groups LVMH and Kering saw strong recovery in mainland China and improvement in Europe, while the US and other parts of South-East Asia continue to have more uncertainty.

For our Macau-based casinos, Sands China and Galaxy Entertainment, we were pleased to see that visas are again issued visas for the nearby Guangdong region, while the rest of mainland China should be able to apply for visas again during September. We have been somewhat disappointed about the Covid-19 contamination but remain convinced that a normalization will eventually appear. Diageo reported their fiscal 2020 with management commenting that an outlook for strong improvement in the business was not just around the corner, which was confirmed by peer Pernod-Ricard as well. We have no doubt that our companies are impacted but we see no signs of longer-term impairment of their earnings-power. Due to the massive actions taken by governments and companies in the wake of the outbreak, the earnings-drop is likely to be worse than seen under the Global Financial Crisis, as revenues have disappeared within a short time-frame without the opportunity for businesses to prepare.

Momentum and growth have been the strong factors during the first half of 2020 and continued in August with a very strong dispersion between factors. We have lowered the exposure to our holding with strongest share-price development, such as Mastercard and IHG, and redeployed capital into high-quality companies with recent share-price underperformance e.g. Novo Nordisk, Automatic Data Processing and Diageo. We have no exposure the FAANGS or BAT, but continue to be struck by the strong share price performance of the world's largest, and likely most analyzed, company Apple and the reoccurrence of stock splits causing strong performance for Tesla and Apple.

We are comfortable with our companies' robust balance sheets and strong liquidity reserves. The built-in cash-flow based valuation support continues to be compelling, and we see our companies as being in place to capitalize when the situation normalizes. Our payment networks are reporting weekly improvement in number and value of payments, where some areas experience growth year-on-year indicating the positive impact of the re-opening.

Account Turnover

Gained:	Number of Accounts:	0	Total Market Value ($m):	
Lost:	Number of Accounts:	0	Total Market Value ($m):	
	Reason(s):			

Manager Style Summary

BLS is a "bottom-up" manager, whose process is driven by individual security selection. They invest in quality companies which have the best possibility of creating sustainable value and generating attractive risk adjusted returns to investors in the long term. Country and sector exposures are by-products of the security selection process and are unconstrained by index weights. The portfolio consists of roughly 25-30 securities at a time. It is a concentrated global equity portfolio, and as such, may experience more volatility relative to the market.

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Portfolio Guideline Compliance August 2020

Portfolio Guideline:	Index	BLS	Calc	Min	Max	Compliance
B3. No more than 10% of the account shall be invested in any one security @ purchase						Yes
B4. No more than 2 companies headquartered in Denmark						Yes
B5. Number of issues		25		25	30	ok
B6. Normal Regional Exposures (* benchmark -/+ min/max):						
North America		34%		35%	50%	check
Japan		0%		0%	0%	ok
Europe ex UK		28%		15%	35%	ok
UK		21%		5%	13%	check
Pacific ex Japan		0%		0%	0%	ok
Emerging Markets		18%		10%	30%	ok
Non-Index Countries		0%		0%	0%	ok
Total		100%				
B7. Normal Global Portfolio Characteristics						
Capitalization (45%-75%)		86		45	75	check
Price/Book Value		7.6		5	9	ok
Price/Earnings (current)		24.2		17	23	check
Price/Cash Flow (current)		21.3		19	24	ok
Dividend Yield		2.5%		1.8%	2.8%	ok
ROE		35%		31%	37%	ok
ROIC		48%		42%	50%	ok
FCF Yield		4.7%		3.8%		ok
F2. Brokerage commissions not to exceed $0.03/share for U.S. equities						Yes
F3. Annual turnover		61%			40%	check
The portfolio is in compliance with all other aspects of the Portfolio Guidelines					☑ Yes	☐ No

Manager Explanations for Deviations from Portfolio Guidelines

B6. Regional Exposures:	Exposure to the UK remains high, while US is lower than historically, due to our perception of risk-reward in our bottom-up process.
B7. Capitalization:	We have seen increasingly attractive risk-rewards in our higher market-cap holding.
B7. Price/Earnings:	The FCF-yield is our primary valuation tool, and the P/E is thus not actively used in assessing valuation attractiveness.
F3. Annual Turnover:	The turnover was historically high in March, as we found what we perceive to be a large dislocation in valuations of high quality companies.

Organizational/Personnel Changes

There have been no changes in the team during the period.